



**AgEcon** SEARCH

RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

*No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.*



United States  
Department of  
Agriculture

Economic  
Research  
Service

Agriculture  
Information  
Bulletin  
Number 606

June 1990

# The Wheat Program in the 1990's

## Issues for Decisionmakers

Edwin Young  
Edward Allen  
Sam Evans

USDA  
NATIONAL ARCHIVE  
1998 SEP -9 P 4: 37  
CURRENT SERIAL RECORDS  
ACC/SERIALS BRANCH

*In this report . . . Government policy affects virtually all U.S. wheat production and sales. Thus, decisions about the national wheat program will affect the U.S. role in the world wheat market, as well as domestic wheat production and consumption decisions. The issues involved and their likely effects depend on the domestic and international settings that the U.S. wheat industry faces.*

The wheat situation in 1990 has changed dramatically from 5 years earlier, when the focus was primarily on how to reduce large stocks and maintain farm income. The focus has broadened following the drop of U.S. and global stocks. Many view the strong wheat prices in 1988 and 1989 as one of the success stories of the 1985 Farm Act, and advocate keeping stocks low and prices strong to minimize Government payments and ownership or control of stocks. Others see a need for a stocks policy to guarantee that the United States continues to reliably supply world markets.

Because wheat and other stocks were large, policy in the 1985 Farm Act set out to constrain U.S. production and, through the lower loan rates and export assistance programs, to force other exporting countries to share some of the supply adjustments (fig. 1). At the same time, lower U.S. loan rates and a large export enhancement program (EEP) lowered U.S. prices for wheat to expand U.S. wheat exports.

The provisions of the 1985 Farm Act were largely successful, although the 1988 North American drought and unfavorable weather conditions in 1989 in much of the U.S. winter wheat-producing areas sharply accelerated the pace of adjustment.

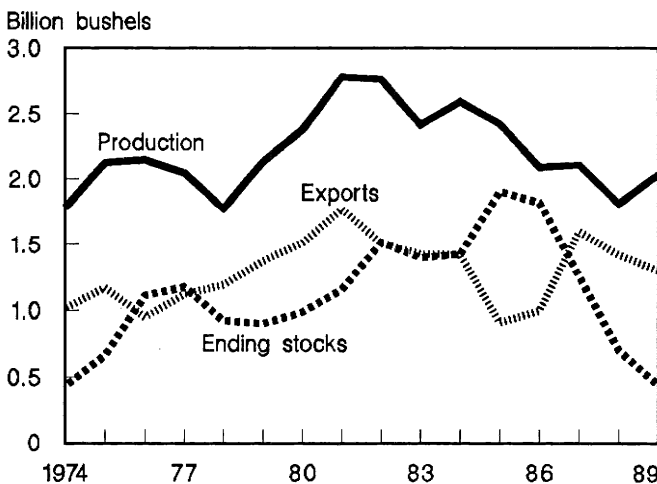
Wheat policies have historically tried to address several basic goals:

- Maintenance of farm income
- Adequate food supplies
- Competitiveness in export markets
- U.S. reliability as a supplier
- Limited Government costs

But these goals have raised other issues:

- Stocks and reserve policies
- Planting flexibility
- Acreage reduction programs
- Target price coverage
- Relative and absolute levels of target prices
- Trade policies
- Environmental quality

Figure 1  
**U.S. wheat: Production, exports, and ending stocks, 1974-89**



## Evolution of Wheat Farm Policy

The history of farm legislation reveals constant effort to achieve market orientation.

---

Many features that appeared in later programs, including acreage allotments, nonrecourse loans, and direct payments, were introduced in the agricultural policies of the 1930's. Legislation in 1949 established the loan rate for wheat at 90 percent of parity (a relationship between costs and prices, which was defined to exist in 1910-14). Because acreage allotments and quotas were not in effect during this period, the high loan rates supported prices and wheat stocks grew sharply, remaining high throughout the 1950's.

Wheat growers took a first step toward market orientation when they disapproved marketing quotas for the 1964 crop, ending mandatory acreage control programs. The Cotton-Wheat Act of 1964 lowered loan rates for wheat to its feed value compared with corn. The Food and Agriculture Act of 1965 kept loan rates low and made direct payments to support growers' incomes.

The Agricultural Act of 1970, which eliminated rigid individual crop acreage controls characteristic of previous programs, authorized a set-aside (acreage reduction) program for wheat and other program crops. Except for maintenance of set-aside areas, farmers' planting decisions were unrestricted.

Even more planting flexibility was embodied in the Agricultural and Consumer Protection Act of 1973, which established target prices for wheat and other program crops to support farm income. The 1973 Act continued the set-aside concept and promoted flexibility by making crop-specific payments for program crops planted. Deficiency payments were made based on the acreage allotment established for a crop, and nearly complete substitution among crops was permitted without loss of deficiency payments.

Wheat prices were coming down from the abnormally high levels of the early 1970's when Congress considered the Food and Agriculture Act of 1977 (fig. 2). Although stock levels remained below those of the 1960's, commodity prices had not kept pace with production costs, resulting in a cost-price squeeze (fig. 3). The response to these conditions, as embodied in the 1977 Act, was to set target prices on the basis of commodity-specific costs of production.

A far-reaching change in the 1977 Act extended target price coverage to current crop plantings. Under the 1973 Act, grain producers had received deficiency

payments based on their historic acreage allotments, regardless of how many acres of wheat or feed grains they actually planted. Allotments and payments were oftentimes considered out of line with current planting patterns. The 1977 Act introduced the normal crop acreage concept in an attempt to correct this distortion. However, by tying payments to actual plantings, it made the target price more important in producer planting decisions and market prices less important.

The Agriculture and Food Act of 1981 was also debated under circumstances of falling farm income and soaring inflation. The focus of the debate was on price and income supports and methods for annually adjusting these levels. The target price adjustment formula specified by the 1977 Act, applied during a period of rapid inflation, had not boosted target prices enough to satisfy agricultural interests. In fact, the Agricultural Adjustment Act of 1980, an interim piece of legislation, discarded the adjustment formula and fixed 1980 target prices for wheat and corn.

Minimum target prices were established for the 1982 through 1985 crops. These minimum levels increased about 6 percent per year, reflecting anticipated inflation rates. After enactment of the 1981 Act, a decrease in annual inflation rates and increases in deficiency payments soon brought about efforts to reduce target prices below levels established in the 1981 Act. The Agricultural Programs Adjustment Act of 1984 capped target prices for wheat at the 1984 level through 1985.

The 1981 Act also reestablished acreage bases for individual crops, reflecting recent crop plantings. The crop-specific acreage bases were expected to make acreage reduction programs more effective and to permit the Secretary of Agriculture to more selectively limit production of program crops. But crop-specific acreage bases also created inflexibility in farmers' planting decisions. In the mid-1980's, when participation rates in acreage reduction programs reached the 85- to 90-percent level, the acreage-base concept locked in production patterns in much the same way as had the acreage allotments under earlier programs.

The development of farm legislation in 1985 took place during serious financial stress for many farmers. High real interest rates and declining land values were among the causes of this stress. Between 1982 and 1985, the United States had suffered a significant loss of export markets and farm income, accompanied by

growing surplus stocks and escalating Government costs. The Food Security Act of 1985, which established farm policy for crop years 1986-90, aimed to make the United States more competitive in foreign markets by reducing loan rates for wheat, feed grains,

oilseeds, and cotton. Freezing target prices at 1985 levels for 1986-87 and allowing for slowly declining target prices thereafter maintained farm income support. The large gap between loan rates and target prices resulted in large deficiency payments.

Figure 2  
**Wheat prices, 1946-88**

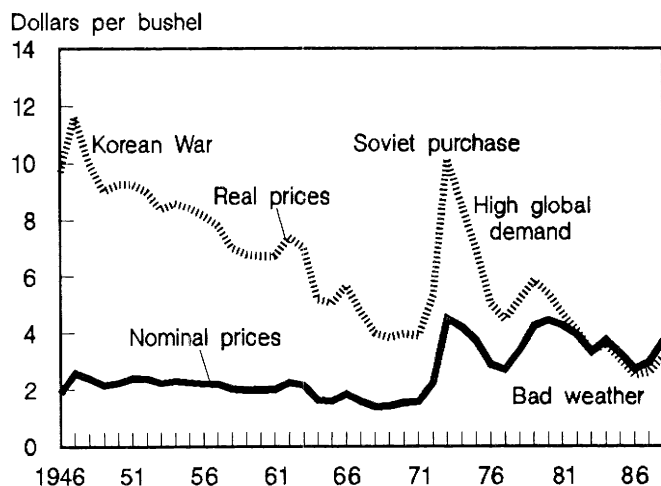
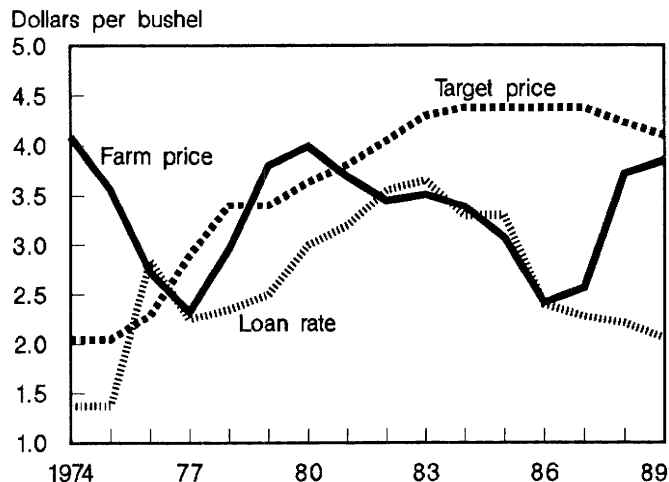


Figure 3  
**Wheat: Farm prices, loan rates, and target prices, 1974-89**



**Table 1—Wheat farm prices, yields, and revenue**

Crop year	Average farm price		Yield	Gross revenue per harvested acre <sup>1</sup>
	Nominal	1982\$		
	<i>Dollars per bushel</i>		<i>Bushels/acre</i>	<i>1982\$<sup>2</sup></i>
1940-44	1.10	7.56	17.1	130.39
1945-49	1.91	9.21	17.0	156.91
1950-54	2.07	8.00	17.3	137.74
1955-59	1.88	6.52	22.2	143.48
1960-64	1.77	5.55	25.2	139.67
1965-69	1.37	3.79	27.5	103.55
1970-74	2.49	5.10	31.3	156.64
1975-79	3.08	4.55	31.4	143.12
1980-84	3.61	3.71	36.3	133.82
1985	3.08	2.78	37.5	104.15
1986	2.42	2.12	34.4	73.09
1987	2.57	2.18	37.7	82.32
1988	3.74	3.04	34.1	103.67

<sup>1</sup>Excludes direct Government payments received by participants in the wheat program.

<sup>2</sup>Yield times nominal price divided by the GNP deflator (1982 = 1.0).

## Major Wheat Program Issues in 1990

The major issues for the national wheat program are stocks, export competitiveness, planting flexibility, target prices, the environment, and Government costs.

---

**Stocks.** U.S. and global stocks during the initial development of a national wheat program will be the lowest since the mid-1970's. Thus, concerns are no longer about how to reduce stocks, but rather what level of stocks we want and how we reach that level. A stocks objective, including the size of and rules for release of grain in the farmer-owned reserve (FOR), needs to be discussed. Can the FOR be modified to permit an orderly release of wheat stocks when the market indicates a need for a particular class of wheat? Durum wheat prices in 1988 shot above \$5.00 per bushel, but durum could not be released from the FOR because the all-wheat FOR release price was not attained.

Many think that ideal wheat stocks range between 0.8 and 1.0 billion bushels, about double the expected carryover at the end of 1989/90. Under current programs, with small or no acreage reduction programs (ARP's) and normal weather, the United States may take some time to rebuild stocks. Unfortunately, under current programs, we may not have the production capacity to rebuild if world wheat trade expands or to fill the gap whenever a foreign production shortfall occurs.

**Export competitiveness.** Export assistance programs will likely remain a factor in determining wheat exports. EEP and Commodity Credit Corporation (CCC) export credit programs will continue to combat competitor nations' export subsidy programs. The United States is unlikely to curtail its export assistance programs until an agreement is reached on multilateral reductions in these types of programs. General Agreement on Tariffs and Trade (GATT) negotiations could alter the 1990 farm legislation, but would likely improve long-term prospects for U.S. wheat exports. The United States has a long history of providing food aid to developing countries, and will continue to do so. These food aid programs depend on adequate supplies of food grains, such as wheat, being available.

**Planting flexibility.** Although enrollment of land in the conservation reserve program (CRP) has reduced crop bases, particularly for wheat, implementation of acreage reduction programs continues to be the primary manner of matching program crop production with total use (fig. 4). However, current use of acreage reduction and cross-compliance programs has limited the flexibility farmers need to switch from crops in excess supply to those in short supply.

In the case of wheat, unless additional land is transferred from other crops (creating flexibility), supplies could remain tight under a scenario of low ARP's. Even if there is no ARP for wheat, stocks will likely remain small compared with historical wheat stocks. Thus, some have advocated a policy of no ARP's for wheat, and others have questioned the size of the CRP. As long as Government payments are tied to production, and target prices exceed market prices, pressure will endure for ARP's to restrain program costs.

Eliminating ARP's for wheat may be advantageous this year, but the history of American agriculture suggests that one can still expect periods of excess production. Because of the CRP's environmental and soil productivity benefits, canceling CRP contracts is, at best, a last resort for increasing the production of wheat and other crops. As long as Government payments are tied to production, restraining outlays through ARP's during periods of excess supply will be necessary.

Planting flexibility is one way out of this dilemma. Planting flexibility would encourage farmers to make planting decisions based on market prices rather than on Government programs. Under current programs, if farmers overplant program crops, they are ineligible for Government payments. If farmers underplant program crops, the Government will reduce the future level of permitted plantings. Increased planting flexibility would allow U.S. producers to grow crops that are in short supply. However, under a flexible plantings policy, consistency in loan rates is critical, because loan rates may affect planting decisions when market prices are low.

**Target prices.** After 15 years of efforts, it remains difficult to set relative and absolute levels of target prices. On average, target prices for wheat, corn, and most other program crops are now above average total economic costs of production (including depreciation and a return on land and management). A standard method for calculating target prices and loan rates applicable to all program crops would be useful. Much has been said about the problems posed by misaligned target prices. Under a flexible plantings policy, alignment of loan rates is also critical. During times of ample supplies, loan rates may affect market prices, and market prices affect planting decisions.

**The environment.** Pressure to reduce production for environmental reasons continues. Protection of soil and water resources is gaining increased attention. Efforts are underway to strengthen the CRP, conservation compliance, sodbuster, and swampbuster provisions of the 1985 Act. Safe use of pesticides and fertilizers to prevent pollution of surface and ground water is being advanced through proposals to encourage use of low-input production practices, increased farmer education, and extension of the CRP. While decreased use of chemical inputs will reduce

agricultural costs to the farmer, the associated potential reduction in yields (and revenues) will most likely reduce net farm income.

**Government costs.** The overall cost of the wheat program will remain a significant factor for both producers and legislators. While program expenditures have declined from their peaks in the 1980's, the levels of target prices, loan rates, eligible program acreage and yield, and costs of export programs will continue to significantly affect program costs (fig. 5).

Figure 4  
**Wheat acres, 1985-90**

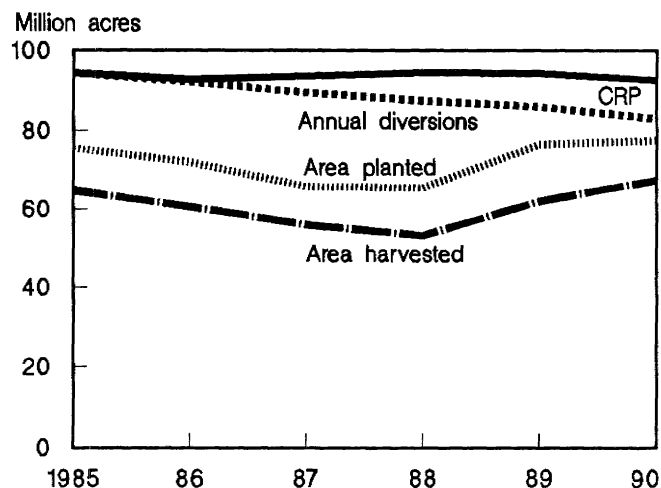
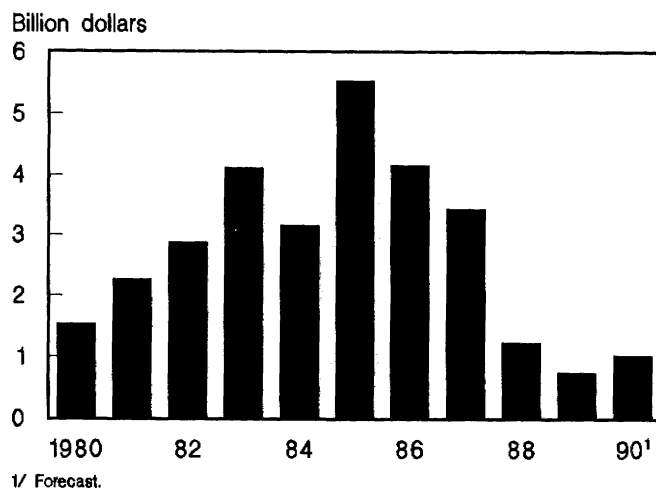


Figure 5  
**Wheat and wheat products:  
Net budgetary expenditures**



## Wide Range of Wheat Produced in the United States

Wheat, the fourth leading field crop, is produced over a wide geographic area, in five major classes.

Wheat is the principal grain used for food consumption in the United States and throughout much of the world. In the marketing year 1988/89, the farm value of wheat production was estimated at \$6.7 billion. Only corn, hay, and soybeans have higher farm values. The United States exported about 60 percent of its wheat production in the 1980's.

Five major classes of wheat are grown in the United States: hard red winter (HRW), soft red winter (SRW), hard red spring (HRS), white, and durum (fig. 6). Production by class is regionally concentrated. So, even when total wheat supplies are large, the supply of a particular class may be tight, and vice versa. For instance, while average wheat yields had dropped only 6 percent in 1988, average yields for HRS and durum had declined 40-50 percent due to poor growing conditions. Weather conditions reduced HRW wheat yields in 1989.

Wheat is grown over a wide geographical area in the United States and under a variety of climatic conditions and soil types (fig. 7). The success of wheat production in the United States is partly attributable to the adaptability of the wheat plant. In addition to being grown throughout the country, wheat has two distinct growing seasons. Winter wheat, sown in the fall and harvested during the following spring or summer, normally accounts for about 75 percent of total production. Spring wheat, sown in the spring and harvested in the late summer or early fall, accounts for the remainder. Climate plays a large role in the type of wheat produced and its characteristics. Regions with low rainfall tend to grow lower yielding, higher protein hard wheats. Higher yielding soft wheats are produced in areas with more abundant precipitation.

Figure 6  
**U.S. wheat production by class, 1986-89**

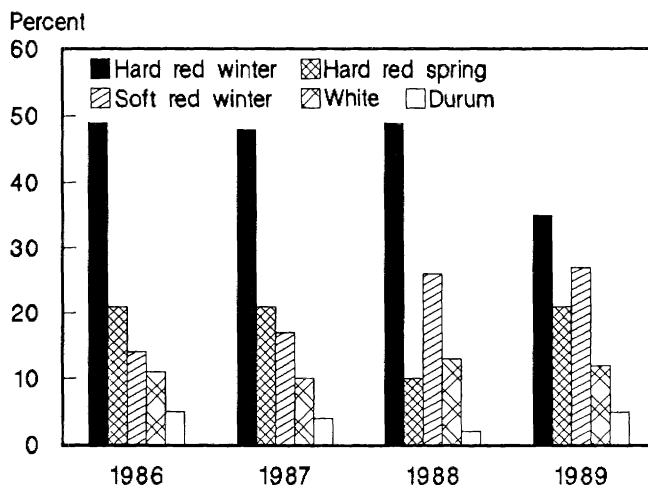
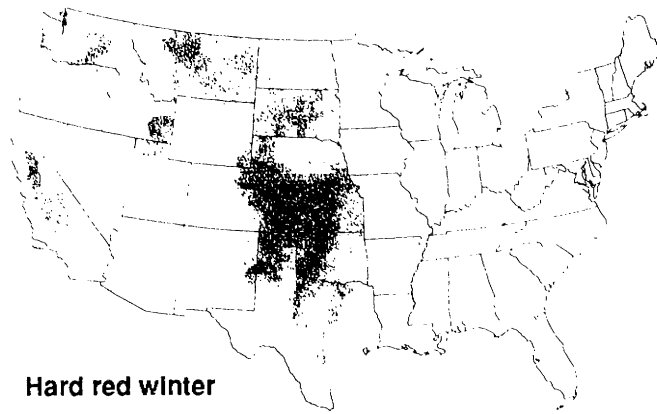
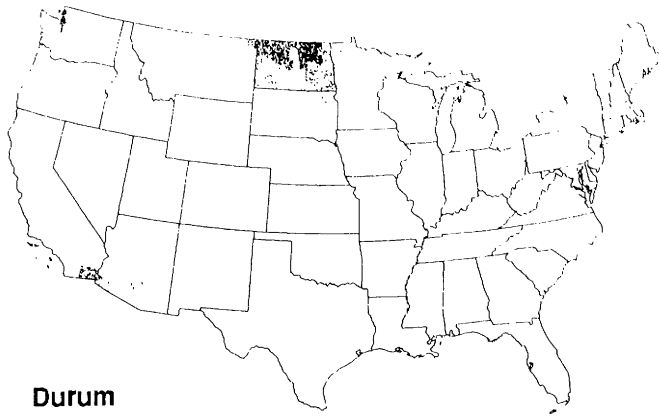


Figure 7

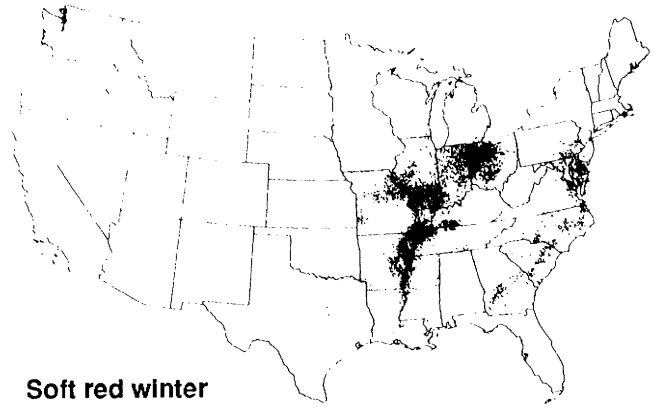
### Distribution of the five U.S. market classes of wheat



**Hard red winter**



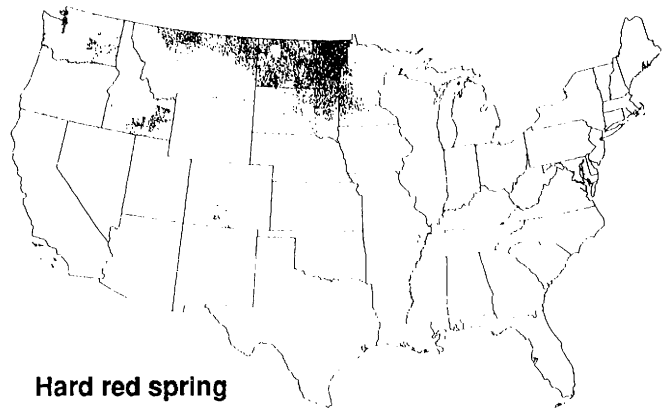
**Durum**



**Soft red winter**



**White**



**Hard red spring**

1 Dot = 5,000 acres.



## U.S. Wheat Production More Than 10 Percent of World Production

World wheat production has about doubled since the mid-1960's, but the U.S. share has dropped to 11-12 percent, down from 15-17 percent in the early 1980's. This declining share reflects a sharp reduction in U.S. wheat acres and differences in yield trends here and abroad.

Before the mid-1970's, increases in U.S. wheat production came mostly from higher yields. The average yield increased from about 14 bushels per acre in 1930 to 31 bushels per acre in 1970, and to almost 38 bushels per acre by 1987. Drought in 1988 and 1989 reduced average wheat yields to 34 and 33 bushels per acre.

Average U.S. wheat yields were virtually the same as the global average yields in 1930. Average U.S. yields increased more than global average yields until 1970, but between 1970 and 1980, global average yields grew faster (fig. 8). This 10-year spurt resulted from the creation of new high-yielding varieties throughout the world and technological advances and high support prices in the European Community (EC).

In the 1980's, yields grew 1-2 percent per year for most major wheat producers (figs. 9 and 10). However, larger gains were achieved in the EC and China, where high-yielding soft wheats are grown. Yield gains in the EC and China may be leveling off. In the early 1960's, U.S. average wheat yields were more than double yields in China but were 20 percent lower than yields in the EC. Today, with normal weather, average yields in China would be 20 percent higher than U.S. yields, and EC yields would about double U.S. yields.

Figure 8  
**U.S. and world wheat production, 1960-89**

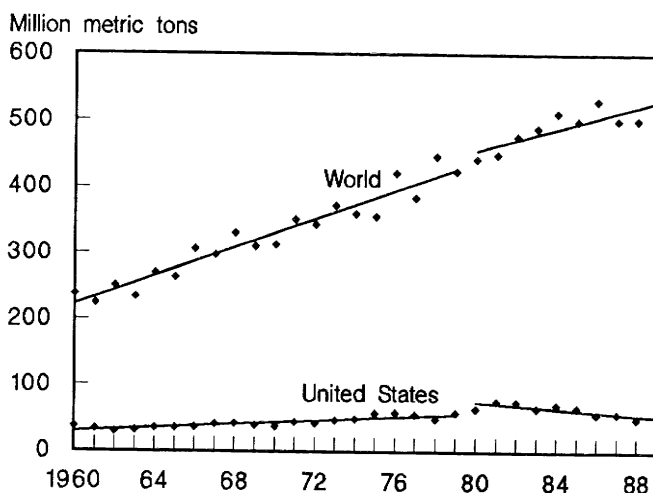


Figure 9  
**Change in wheat yields**

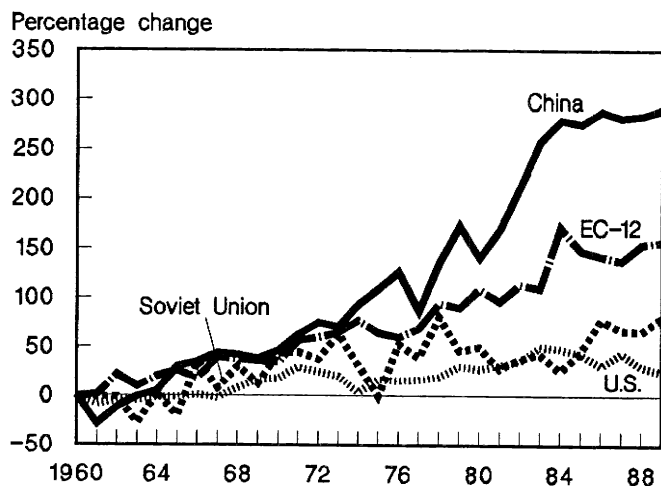
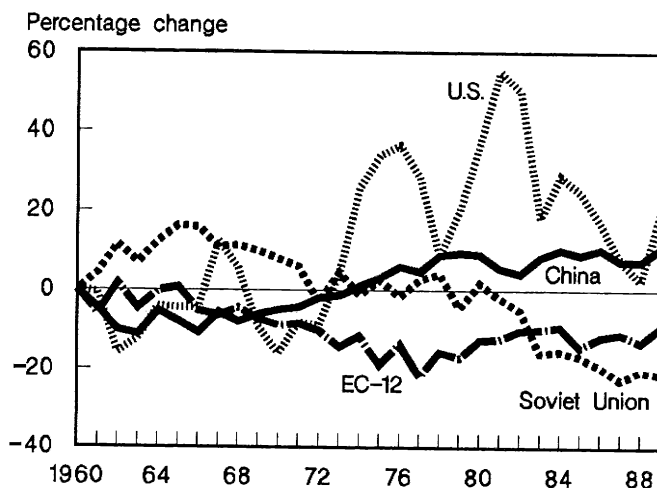


Figure 10  
**Change in wheat area harvested**



## Domestic Wheat Food Use Stable

Changes in wheat prices and domestic economic conditions play a small role in determining food use. Future demand may be closely related to population growth and the trend toward convenience in food consumption.

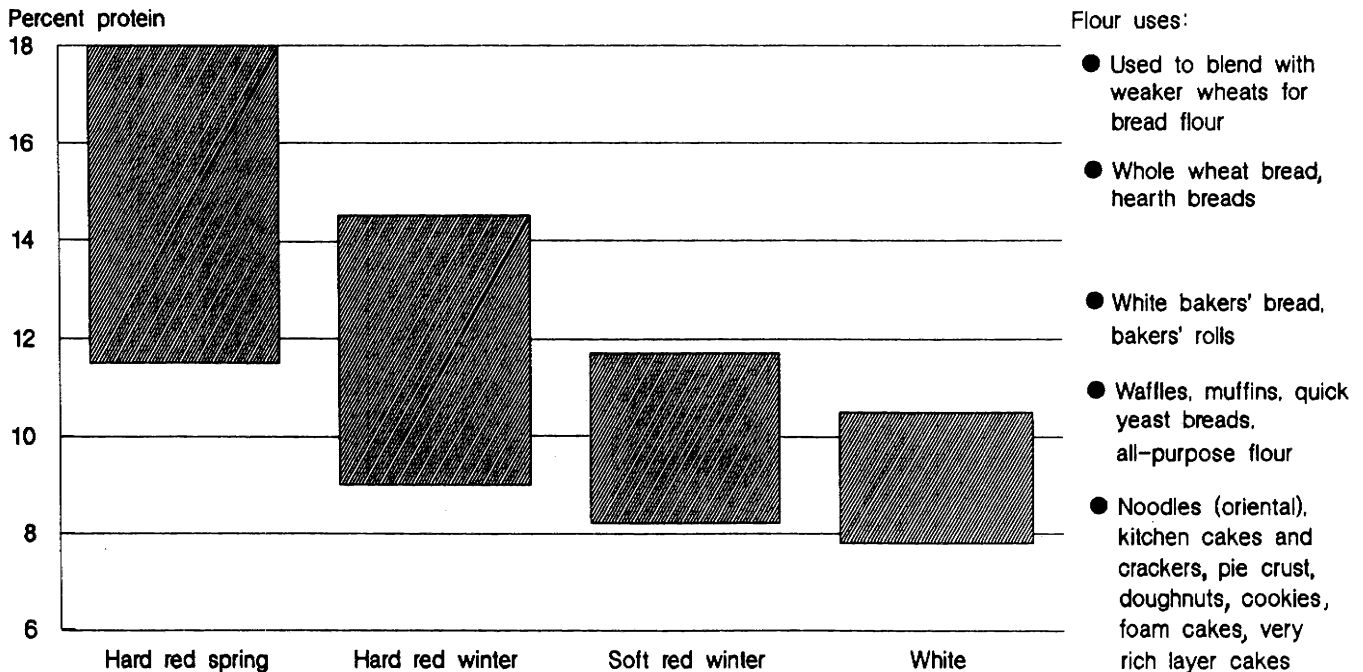
Domestic uses of wheat include food, feed, seed, and industrial uses. About 60 percent of domestic use of wheat is for food. Per capita consumption of wheat flour increased from 110 pounds in 1972 to 129 pounds in 1989. Wheat is used in a variety of food products, including bread, cakes, noodles, and pasta. Each class of wheat has alternative uses based on its characteristics (fig. 11). Higher protein hard wheats are used for bread, while lower protein soft wheats are used for cakes and cookies. Durum wheat is used to make pasta.

Changes in wheat prices or domestic economic conditions have a reduced effect on the demand for wheat. Future demand may respond more to population

growth and the trend toward convenience in food consumption. Growth in wheat food use is unlikely to match expected yield gains.

Much of the year-to-year variability in domestic use is in the feed and residual category. Whenever wheat prices are low compared with corn prices, farmers sharply increase the amount of wheat fed to livestock. When feed use is small, other factors in the feed and residual category begin to dominate. During the 1950's, domestic use of wheat was often double the amount exported. In recent years, wheat exports frequently have been highly variable, but much larger than domestic use. Thus, most analyses of wheat demand have focused on exports.

Figure 11  
**Protein range and flour uses of major wheat classes**



## U.S. Competition in the World Wheat Market

**Exports are crucial to growth in the U.S. wheat sector. The United States must increase exports or lose market share, thus jeopardizing wheat farmers' incomes.**

---

During 1960-89, world wheat trade more than doubled, rising from an average of 1.74 billion bushels (47.4 million metric tons) in 1960-64 to 3.6 billion bushels (97.7 million metric tons) in 1980-88, excluding intra-EC trade (fig. 12).

Many factors helped to double world wheat trade. Importing nations, particularly developing countries, experienced strong population growth of up to 50 percent during 1970-88. Some nations had rapid income growth, especially in the 1970's. Income growth was most pronounced in oil-exporting and other middle-income developing nations. This income growth, with massive population movement from rural areas to cities, shifted demand toward prepared foods, such as bread, that required imported grain. Some nations, such as those in Sub-Saharan Africa, increased grain imports because persistent droughts decreased their per capita food production. Government policies subsidized wheat for consumers in China, Pakistan, Brazil, and Egypt, necessitating imports. In addition, industrial nations provided free or low-cost food aid.

The major foreign competitors in the world wheat market are the EC-12, Canada, Australia, and Argentina. During the late 1970's and early 1980's, these competitors increased production and exports, reducing U.S. market share (figs. 13 and 14).

American farmers have generally supplied about 40 percent of the wheat in world trade (fig. 12). This percentage declined to less than 30 percent in the mid-1980's due to high U.S. prices, but recovered to 40 percent in 1987 and 1988 with a combination of the lower loan rate, sales of CCC stocks through the wheat auction, the EEP, other Government export assistance programs, such as GSM-102 and -103 and P.L. 480, and continued increases in world trade. However, total world trade in 1988/89 was nearly 10 percent less than the record set in 1984/85.

U.S. wheat policy has factored significantly in determining the volume of wheat exports. When the loan rate

provided a price floor to the world market, and a high release price isolated CCC stocks from the market during the 1981-85 period, importers purchased less wheat from the United States, and competing exporters sold more in world markets, thereby reducing U.S. wheat exports (fig. 15).

The United States has operated a wheat storage program, which stabilizes shortrun fluctuations in the world market. In the past, therefore, the United States absorbed much of the shock from changing world market conditions, storing excess grain when world supplies were large and providing additional supplies when the market ran short (fig. 16). The policies instituted under the 1985 Act, especially the lower loan rates, the wheat auctions, and the EEP, reduced the U.S. role in stabilizing the world wheat market. However, whenever the United States could not provide wheat for the world market, other exporters expanded production, which ultimately reduced the U.S. share of world trade.

Recent history points to many factors that will continue to significantly affect U.S. export growth prospects throughout the 1990's. First, imports by developed countries will probably remain static, while purchases by developing and centrally planned countries will continue to dominate (fig. 17). The rapidly developing economies of East Asia have increased their demand for imported wheat. As incomes rise in these countries, the demand for increased variety in food products will likely rise, boosting demand for wheat.

The wheat imports of centrally planned nations have also contributed to the growth in world wheat trade. Population growth and limited arable land may continue raising China's imports. The central government in the USSR is committed to increasing procurement of quality wheat from USSR producers. However, measures announced to date have been ineffective. During the 1990's, the USSR wheat imports will largely hinge on the USSR's successful implementation of reform measures and reduction of waste.

Figure 12  
**World wheat trade, excluding intra-EC trade**

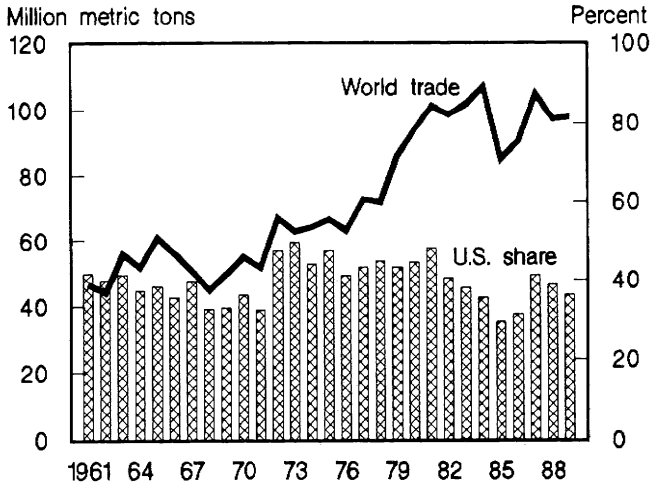


Figure 13  
**World wheat trade, 1974-89**

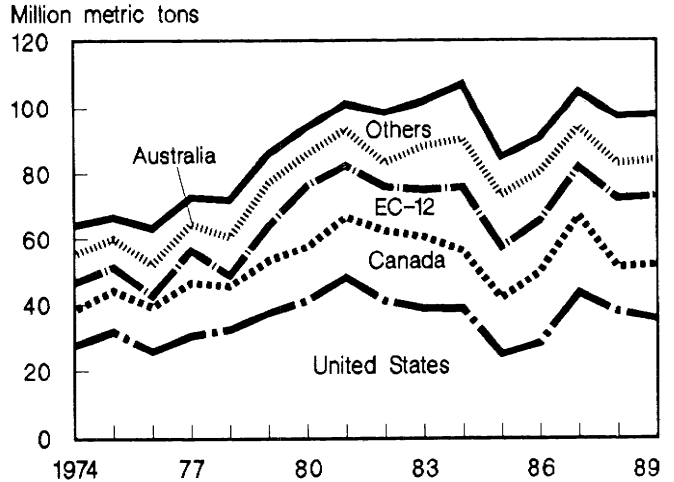
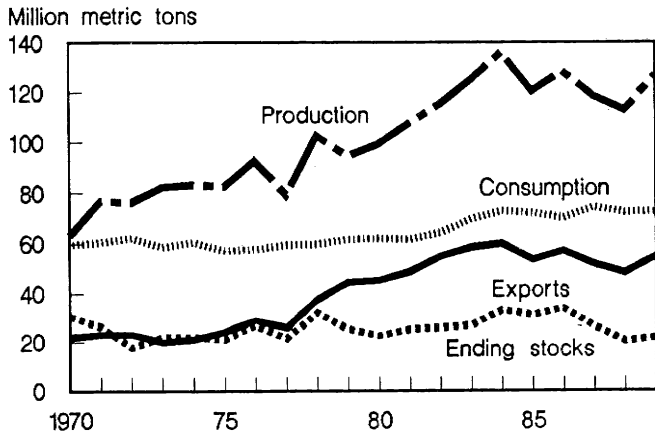


Figure 14  
**Major competitors: Production, consumption, exports, and ending stocks**



Competitors are EC-12, Canada, Australia, and Argentina. Exports exclude intra-EC-trade.

Figure 15  
**U.S. exports: Quantity and value, 1960-89**

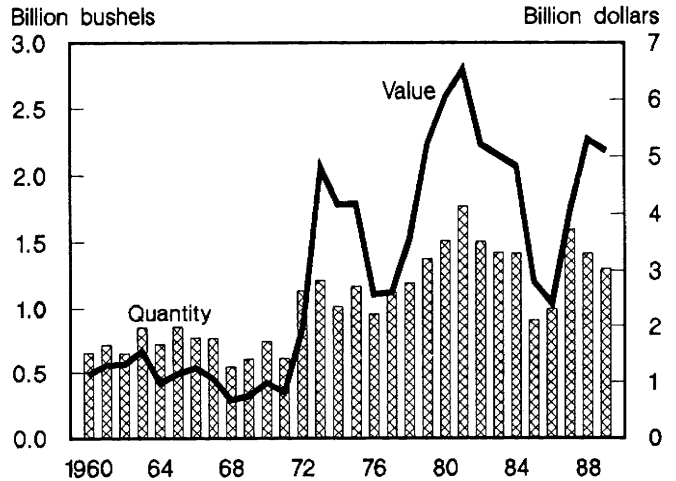


Figure 16  
**Ending stocks-to-use ratios**

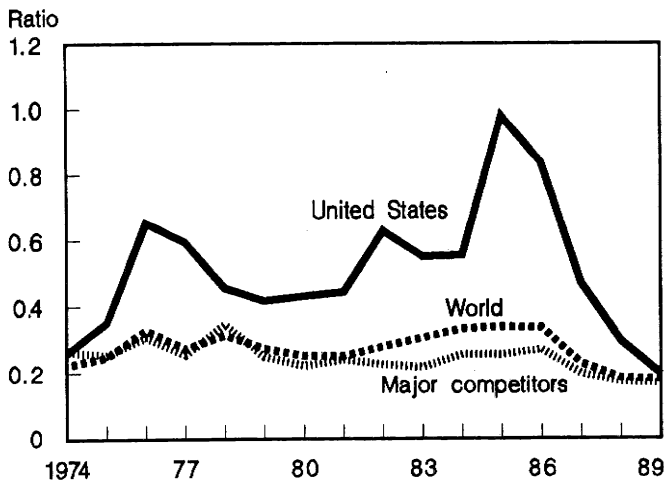
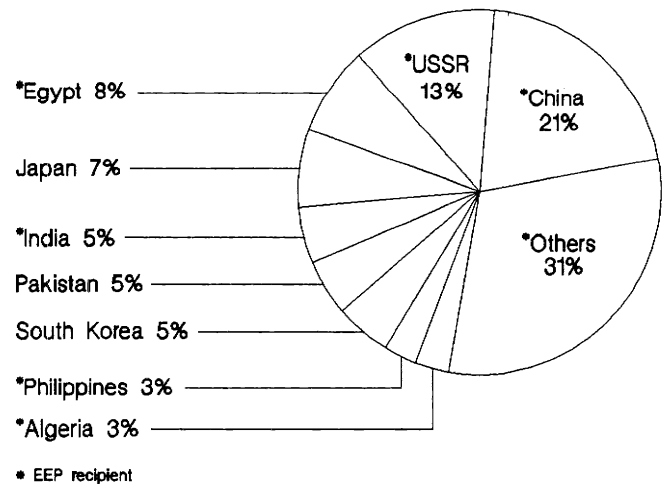


Figure 17  
**U.S. wheat exports by destination, 1988/89**



## Recent Developments

### Policies of the 1985 Food Security Act and significant, weather-related production shortfalls have cut wheat surpluses.

---

The large stocks of the 1960's were gradually declining by the early 1970's, when export demand suddenly exploded. A period of heightened food security concerns followed, and coincided with market expansion through most of the 1970's. After 1982, global import demand softened, and U.S. prices were not competitive, resulting in a loss of market share and large carryover stocks. Therefore, farm legislation in 1985 clearly needed to address problems of competitiveness.

The 1985 Act sought to expand markets, both at home and abroad. The EEP was established to combat competition from subsidized EC exports. Wheat and flour have received the largest EEP bonuses. The exchange at wheat auctions of CCC inventory for generic certificates helped make U.S. wheat available at competitive prices and reduced Government stocks. Lower loan rates, competitive prices, and strong foreign demand also helped push U.S. wheat use to a record high in 1987/88.

ARP's were instituted to reduce soaring Government program costs. During the 1983/84-1988/89 crop years, program participants idled more than 20 percent of their wheat base under annual wheat programs. This reduced the acreage eligible for Government price and income support payments. Area planted fell each year from 1984/85 through 1988/89.

SRW wheat producers, along and east of the Mississippi River, have had lower program participation rates than other wheat producers. When wheat market prices fell in the mid-1980's, wheat prices for SRW fell more rapidly than prices for other classes of wheat. Since prices improved in 1988, production of SRW has expanded more than production of other wheat classes. Producer marketing patterns and strong export demand, especially from China, have kept SRW stocks low. Exports of SRW in 1989/90 were second only to HRW exports (fig. 18).

The CRP has added a new dimension to production restraints. Erodible land enrolled in the CRP is now being retired from production for a 10-year period. More wheat base acres have been enrolled as CRP land than acres for any other crop. The CRP has retired enough wheat acreage through the end of 1989 to keep as much land idled as would a 10- to 15-percent ARP. The CRP now represents a significant

long-term constraint on U.S. wheat production capacity. Unless a substantial production shortfall occurs, CRP land is unlikely to return to wheat production during the 10-year contract. Some CRP land may never return to wheat production.

In 1988, drought severely reduced yields of most spring-planted crops. Spring wheat yields in some States were cut in half, and there was increased abandonment. Disease contributed to below-trend yields of winter wheat, although winter wheat was spared the worst effects of the 1988 drought. In 1989, however, dryness combined with extensive freeze damage to sharply reduce yields of winter wheat. Spring wheat yields, which rebounded from 1988's disaster, were still below trend largely because of hot, dry weather during a critical period of development.

In response to the tightened supply, USDA reduced the ARP for 1989 to 10 percent, down from 27.5 percent for 1988. Despite significantly more planted area, reduced yields and increased area abandonment limited the production increase in 1989. Also, production lagged estimated use for the fourth straight year.

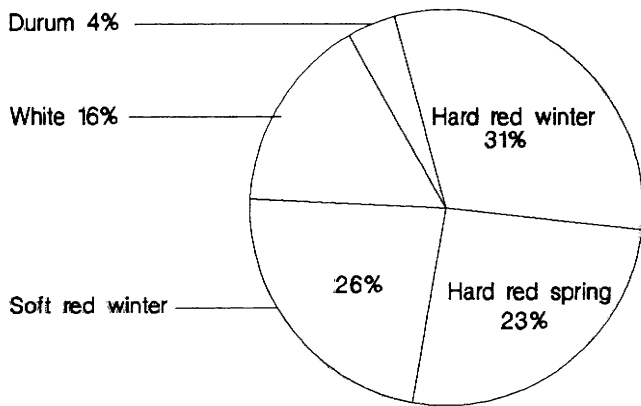
Stocks continued to decline in 1989/90. However, the stocks decline since 1986 has been orderly, with expensive CCC inventory showing the sharpest drop. Less wheat was placed under the 9-month CCC loan program, as prices surpassed the loan rate. Also, the farmer-owned reserve has decreased as loans have matured, since few loans were extended and no new entry was allowed. The Food Security Reserve has helped to maintain food aid shipments, further reducing recent CCC inventory. Privately owned stocks not in a Government loan program have increased dramatically from June 1986.

World and foreign competitors' stocks have also fallen in recent years, but have rebounded slightly in 1989/90 (fig. 19). Canada suffered from the same drought that devastated U.S. spring wheat in 1988, reducing their stocks to minimal levels. The EC saw 1988/89 as an opportunity to reduce expensive intervention stocks, as high world wheat prices that year allowed the EC to export with much lower subsidies than were available in 1986-88. As wheat prices have increased, some importers have drawn down stocks instead of importing to meet their domestic demand shortfall.

**A look ahead.** The world stocks-to-use ratio for wheat is at its lowest point since the early 1970's. However, initial indications point to record global wheat production in 1990/91. Higher wheat prices have encouraged larger wheat planting in many parts of the world.

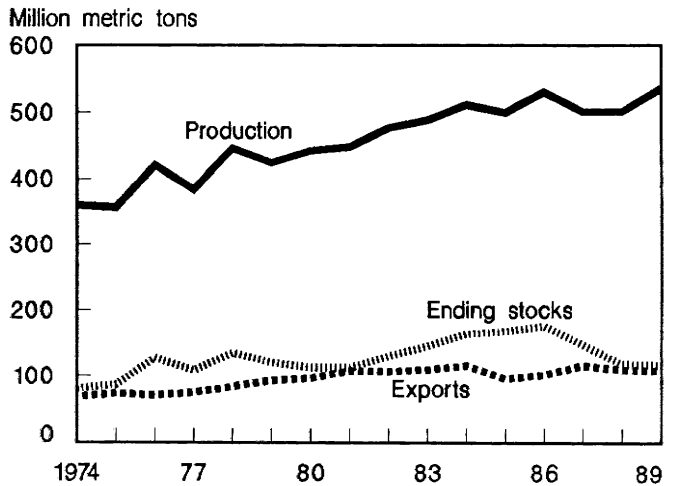
The United States is likely to increase its wheat production in 1990 above 1989 levels. The wheat program, originally requiring a 5-percent ARP, has been modified to allow wheat producers to plant up to 105 percent of their acreage base, if they are willing to forgo some deficiency payments.

Figure 18  
**U.S. wheat exports by class, 1989/90**



U.S. winter wheat production is forecast up more than 40 percent, and total wheat production in 1990 may be a third above 1989. While additional trade in wheat for feeding is expected to lead to an expansion in world trade, expanding wheat production in many of the exporting countries will create intense competition for world markets. While projected to trail production, 1990/91 use is projected up from 1989/90 levels. U.S. 1990/91 stocks are projected to be the largest since 1987/88, but to remain well below the burdensome levels of the mid-1980's.

Figure 19  
**World wheat: Production, ending stocks, and exports**



## Reports you can use . . . from ERS

### ***U.S. Agricultural Trade Update***

gives you up-to-the-minute information.

Each month the *U.S. Agricultural Trade Update* brings you ERS' most up-to-the-minute data on the farm trade sector. This useful 6-page update brings you the most current figures, *delivered by first-class mail to ensure timely delivery.*

The *U.S. Agricultural Trade Update* covers the monthly farm trade balance, U.S. farm imports and exports by quantity and value, and leading exports and exporters.

A 1-year subscription to the *U.S. Agricultural Trade Update* costs just \$15. Or save by ordering a 2-year subscription (that's 24 issues) for \$29, or a 3-year subscription for \$42.

### ***Situation and Outlook Agricultural Trade Reports***

give you the facts . . . and the forecasts!

These reports provide both current intelligence and historical data on international food and agricultural developments. They also forecast how changes in conditions and policies around the world will affect both U.S. and international agriculture.

***Outlook for U.S. Agricultural Exports*** offers the latest value and volume of U.S. farm exports, by commodity and region, as well as the agricultural trade balance, import commodities, and export outlook. ***World Agriculture*** offers production and use data and analyses by commodity and country, along with a review of recent economic conditions and changes in food and trade policies. ***World Agriculture Regional*** reports summarize the year's developments affecting U.S. agriculture and trade in five key regions, and look to the future with articles on market trends, trade, and policy (regional reports include USSR, China, Western Europe, Pacific Rim, and Developing Economies).

The cost is just \$12 for a 1-year subscription per title. Or save by ordering a 2-year subscription for \$23, or a 3-year subscription for \$33.

**Call toll free, 1-800-999-6799**

in the U.S. and Canada; other areas, please call 301-725-7937.  
Or write, ERS-NASS, P.O. Box 1608, Rockville, MD 20849-1608

# Farm Policy—In Plain English

**Basic Mechanisms of U.S. Farm Policy**, by USDA's Economic Research Service, demystifies and clarifies farm legislation and the programs spawned by it. It describes in plain English the key concepts of how U.S. farm policy works and takes you step-by-step through the major programs.

The report guides you from the ARP through the 0-92 program and all the major programs in between. Need to know how to calculate a deficiency payment? Look on page 11. How about turning a commodity certificate into cash money? It's here, too, page 56. Farmer considerations in deciding whether to redeem their grain from the FOR? Right on page 68.

## For Novices and Experts Both, A Quick Way To Understand Farm Policy

Anybody with a need for a quick way to understand farm policy will benefit by this report. Farmers, food processors, exporters, importers, Congress and congressional staffs, lobbyists, trade association employees, and students from high school to graduate school are just some of the groups who can benefit. Even farm policy experts will want to order multiple copies of this informative report to help show their clients what it's all about.

**Basic Mechanisms of U.S. Farm Policy** uses easy-to-understand language and diagrams to describe farm policy mechanisms. Be sure to order enough for both your staff and your clients!

*The complete array of farm policy mechanisms can appear overwhelming to anyone unfamiliar with the history of U.S. agricultural legislation. But each mechanism originated in Congress, reflecting public concerns about food, agriculture, and the needs of farmers.*

### SOME BASIC MECHANISMS OF U.S. FARM POLICY

Target Price	Projected Deficiency
Loan (Nonrecourse loan) Rate	Advance Deficiency
Deficiency Payment	Base Acres & Program Yield
Original Deficiency	0-92 & 50-92
Reduced (Findley) Loan Rate	Commodity Certificate
Emergency Compensation	Posted County Price (PCP)
Acreage Reduction Program (ARP)	PIK and Roll
Paid Diversion	Export Enhancement
Base Acres	Farmer-Owned Reserve (FOR)
Program Yield	Corn (& Wheat) Catalog
Program Production	Reserve Rollover
Basic Commodities	Conservation Reserve Program
Acreage Conservation Reserve	Disaster Payment
Conservation Use	Marketing Loan
Payment Limitation	

*Part one of this report concentrates on the left side of this list, and Part two covers the seven mechanisms at the top right.*

*Part three covers the remaining seven mechanisms on this list.*

*A sampling of what's in "Basic Mechanisms of U.S. Farm Policy."*

**To order *Basic Mechanisms of U.S. Farm Policy* (MP-1479), call toll free, 1-800-999-6779 in the United States and Canada; other areas, please call 1-301-725-7937. Or, write ERS-NASS, P.O. Box 1608, Rockville, MD 20849-1608.**



## **For additional information . . .**

Contact Edwin Young, U.S. Department of Agriculture, Commodity Economics Division, Room 1034, 1301 New York Avenue, NW., Washington, DC 20005-4788, (202) 786-1840.

## **Acknowledgments**

The authors appreciate the editorial assistance of Teri Davis Thrash.

## **It's Easy To Order Another Copy!**

Just dial 1-800-999-6779. Toll free (in the United States and Canada). All other areas please dial 301-725-7937.

Ask for *The Wheat Program in the 1990's: Issues for Decisionmakers (AIB-606)*.

The cost is \$4.00 per copy. For non-U.S. addresses, add 25 percent (includes Canada). Charge your purchase to your VISA or MasterCard, or we can bill you. Or send a check or purchase order (made payable to ERS-NASS) to:

ERS-NASS  
P.O. Box 1608  
Rockville, MD 20849-1608.

We'll fill your order via 1st class mail.

**U.S. Department of Agriculture**  
**Economic Research Service**  
1301 New York Avenue, NW.  
Washington, DC 20005-4788